

TUCSON SUPPLEMENTAL RETIREMENT SYSTEM BOARD OF TRUSTEES Meeting Minutes

DATE: Thursday, January 24, 2019
TIME: 8:30 a.m.
PLACE: Human Resource Conference Room, 3rd floor East
City Hall, 255 West Alameda
Tucson, Arizona 85701

Members Present: Mark Rubin, Chairman
Joyce Garland, Finance Director
James Wysocki, Elected Retiree Representative
Michael Coffey, Elected Representative
Kevin Larson, City Manager Appointee
Ana Urquijo, HR Director

Staff Present Art Cuaron, Pension & Benefits Administrator
Tina Gamez, Administrative Assistant

Guests Present Catherine Langford, Yoder & Langford – TSRS Legal Counsel (via telephone)
Dave Deibel, Deputy City Attorney
Pete Saxton, Pension Manager
Leslie Thompson, Gabriel, Roeder, and Smith

Absent/Excused: Jorge Hernández, Elected Representative

Chairman Rubin called the meeting to order at 8:30am

A. Consent Agenda 00:00 - 01:00

1. Retirement Ratifications for January 2019
2. December 2018 TSRS Budget Vs. Actual Expenses
3. December 2018 Board Meeting Minutes
4. TSRS December Investment Measurement Service Monthly Review ^{Note 1}

Chairman Rubin asked if any items would like to be removed from the Consent Agenda, hearing none the Chairman stated the minutes were considered approved (Jorge Hernandez absent/excused).

B. Call to Audience 01:01 - 01:07

None heard

C. Administrative Discussions 01:08 – 02:01:02

1. Approval of Experience Report and 5-Year Assumptions – 01:08 – 01:19:57

Leslie Thompson from Gabriel, Roeder, Smith & Company presented the results of the System's five year experience study to the Board. Leslie provided the Board with the plan's current assumption set as well as a brief description of each assumption and the impact it has on the plan's overall funding. Leslie went through the actuary's recommendations which were to reduce the discount rate to 6.75%, leave the base salary increase assumption at 3.00% and adopt the recommended demographic changes to account for slight modifications in mortality table, disability, terminations and retirements based on actual plan experience. She

also discussed the difference between assumptions and actual results noting that assumptions anticipate the future but the actual results will determine the ultimate net cost.

Leslie informed the Board that if changes were only made to the demographic assumptions (mortality table, disability, retirement and terminations), there would not be any changes to rates that are currently being assessed. If changes were made to the assumed rate of return but payroll growth and base salary increase remained at 3.00%, there would be changes to the employer contribution amount and the Tier I variable and Tier II employee contribution rates.

Leslie presented the other scenarios as requested by the Board in October. She indicated that moving to 7.00% discount rate and leaving the payroll and salary assumptions at 3.00%, there would be increases to the employee contribution rates in FY 2021 but not the employer rate, as long as the City continued use of the funding policy.

Kevin Larson requested additional clarification on the base salary increase assumption and the total payroll growth assumption. Leslie answered that higher paid older people retire and are replaced by younger people with lower salary which is why total payroll does not increase. In addition, the total number of employees has not grown.

Joyce Garland suggested that some of the pay of freezes could be an anomaly and the City would not likely see this in the forthcoming five years.

Joyce asked how smoothing is accounted for in the next five year period. Leslie responded that actual results get smoothed during the annual valuation process when she is setting the rates.

Joyce commented that she is trying to look at the study and results using a long term perspective. She asked about the unfunded liability, specifically, how the proposed change in the unfunded alters the timeframe to full funding. Leslie responded that the timeframe does not change for any of the scenarios presented.

Kevin asked if we should think of these as a long term basis or shorter term like 5 years. Leslie responded that the Board should think long term, 80 years, but the reality is that we live in 5 year budget cycles and the Board would likely engage a new experience study 5 years from now to update assumptions.

Leslie walked the Board through the data to support the actuary recommendation in each assumption data set.

Kevin Larson clarified if the recommended mortality table was to account for people living longer, Leslie answered in the affirmative.

Leslie reiterated to the Board that she felt strongly about the 6.75% discount rate but deferred to Board and staff regarding the salary assumption. Kevin Larson asked for confirmation that the discount rate would be the assumption that carried the largest impact to the plan. Leslie confirmed it is the biggest lever that the Board can pull.

Kevin commented that when he looked at all other public and corporate plans, there is a reluctance to move the discount rate below 7.00%, he understood that the data supported such a move to 6.75% but when he looked at what TSRS actually achieved over the last 25 years it's been 8-9%. He asked Leslie why the Board should be more conservative than that of other similar plans. Leslie reframed the question to hint at why ASRS and COPERS were at 7.50% and 7.25% but TSRS is being asked to go to 6.75; she responded by indicating the timing at which each experience study was done and how the capital market projections have changed since 2016 as the reason for the difference.

Kevin preferred to make small adjustments based on TSRS experience dating back to the early 1990's. Joyce agreed stating that all assumptions must be taken together as a whole and need to look the impacts to the plan itself.

Michael Coffey asked if the Board was more optimistic about the capital markets than the actuary. Leslie responded that the Board was more optimistic than the investment consultants she surveyed in her study. Michael asked why the Board should be more optimistic than those surveyed. Kevin responded that if we went back 5 years and looked at similar projections, they would have been at similar level if not lower because of the bond market at that time.

Leslie noted that Boards that have asked similar a question may have been more favorable view of inflation or the impact of alpha on the return, which she cannot take in to consideration.

Jim Wysocki asked what if market does return 7.00% and the Board had chosen 6.75%, how does that impact 76.2% funding status. Leslie responded that if the market outperformed, the funding status would increase.

Chairman Rubin stated that he wanted to know the impacts to the employees should the Board's decision impact the rates.

Cassie Langford asked for clarification on how the 6.75%, would impact the City's contribution rate. Leslie commented that she did not touch the timeline and the City's rate would increase to 28.00%. Leslie also informed the Board that Tier I and Tier II would also see increase in that scenario.

Kevin also noted that under the 7.00% and 3.00% scenario, the City would continue to contribute extra toward the unfunded liability rather than making it a requirement that they do so in the 6.75% scenario. From a political standpoint, it offers the Board a little headroom with the City in terms of the required contribution rate.

Art Cuaron asked when the assumptions begin effective. Leslie indicated that they would become effective for FY 2021.

Joyce asked for the dollars required by the City under the 7.00% scenario. Leslie did not have the figure.

Jim Wysocki commented that he favored the 7.00% to minimize against the impacts to the employees.

Motion was made by Joyce Garland to adopt 7.0% discount rate, 3.0% salary growth, 3.00% payroll growth, as well as the actuary recommended demographics, 2nd by Kevin Larson. Motion passes 6-0. (Jorge Hernandez absent/excused)

Break: 9:50 AM

Returned: 9:55 AM

2. TSRS Rules and Regulations – 01:19:57 – 01:56:18

Cassie Langford presented the revised changes to Rules, 3, 7, 10 and 11.

Discussion was held, no formal action taken.

3. Board Member Term Limits 01:56:19 – 01:58:28
4. Addition of Elected Retiree Board Member – 01:56 – 01:58:28

Chairman Rubin moved items 3 and 4 to the February meeting.

5. TSRS FY 2018 Comprehensive Annual Financial Report 01:58:29 – 02:01:02

Art Cuaron distributed the FY 2018 CAFR's to the Board and provided an update on the FY 18 audit by the City's independent audit firm. Art informed the Board that the auditors provided a clean opinion and did not present any findings on internal controls. Art indicated that he would bring back the internal audit update in February.

D. Articles & Readings for Board Member Education / Discussion

1. BofA – Managers Expect Economy to Slow, but See Chance of Recession As Slight

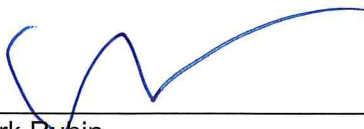
2. Infrastructure, Real Estate to Remain High on Investor Lists
3. Investors Shifting Focus to Bonds, Private Markets Away from Equities – Survey

E. Future Agenda Items

1. TSRS Rules and Regulations
2. Consideration for TSRS to Hire External Legal Counsel

F. Adjournment

Adjourned 10:36 AM



Mark Rubin
Chairman of the Board



Date



Art Cuaron
Pension & Benefits Administrator



Date